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FISCAL IMPACT STATEMENT

LS 7362
BILL NUMBER: HB 1327

NOTE PREPARED: Jan 24, 2013
BILL AMENDED:

SUBJECT: Hospital and Health Facility Assessment Fees.

FIRST AUTHOR: Rep. Brown T
FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
X FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill extends the Hospital Assessment Fee (HAF). (Under current law, the fee expires on June 30, 2013.) It updates statutory references to the HAF.

The bill extends the Health Facility Quality Assessment Fee (QAF). (Under current law, the fee expires on June 30, 2014.) It repeals a provision that provides for the expiration of the QAF.

Effective Date: Upon passage.

Summary of NET State Impact: This bill codifies the existing Hospital Assessment Fee program and extends it for the time period that the fee is being assessed. The 2012 annual assessment was for $646 M, leveraging total expenditures of $1.958 B. The federal share of funds would be $1.312 B. The assessment is to be used to increase Medicaid hospital rates, replace Disproportionate Share Hospital (DSH) distributions made to the state and private psychiatric facilities, and to provide additional state match dollars for use within the Medicaid program.

The bill also extends the existing Health Facility Quality Assessment Fee providing authorization for the required increase in Medicaid nursing facility reimbursement and the collection of the QAF after July 31, 2014. Extending the QAF would authorize an estimated total annual collection of about $166.3 M. The state share would be $48.9 M for FY 2015, FY 2016, and FY 2017, if nursing facility days remain constant.

Neither the HAF nor the QAF provisions include an expiration date.

Explanation of State Expenditures: *HAF Provisions:* The bill codifies the elimination of Disproportionate Share Hospital program payments for state-operated facilities and requires the state to replace $2 M in DSH payments to private psychiatric facilities previously made with DSH funds. Together these amounts total approximately $70 M. This provision is in effect during any period when the HAF is being collected.

QAF Provisions: The bill would extend the required increase in Medicaid nursing facility reimbursement during the period when the fee is assessed. The current statute requires that in the FY2014-FY2015 biennuim,70.6% of the QAF collected must be used to leverage federal Medicaid matching funds to increase nursing facility reimbursement targeting specific uses. The remaining 29.4% of the estimated QAF must be used to offset Medicaid costs incurred by the state. Should federal financial participation become unavailable to provide for the reimbursement, current law provides that the Office of Medicaid Policy and Planning (OMPP) will cease to collect the QAF.

This bill requires the following percentage distributions of the QAF collections.

Designated Purpose	FY 2013	FY 2014 Through FY 2017
Nursing Facilities Services	66.5 %	70.6 %
Other Medicaid Services	29.4 %	29.4 %
To Pay Prior-Year Nursing Facility Overpayments	4.1 %	-

If the QAF results in annual collections of $156.2 M in FY 2013 and $166.3 M through FY 2017, the amounts shown below would be available to leverage federal funds for the designated purposes.

Designated Purpose	FY 2013	FY 2014 Through FY 2017
Nursing Facilities Services	$ 103.9 M	$117.4 M
Other Medicaid Services	$ 45.9 M	$ 48.9 M
To Pay Prior-Year Nursing Facility Overpayments	$ 6.4 M	-
Total	**$ 156.2 M**	**$ 166.3 M**

Explanation of State Revenues: *Extension of the HAF:* The bill codifies the existing hospital assessment fee and authorizes the program during the period that the fee is collected. The bill suspends certain hospital supplemental payment distribution programs during the term of the assessment fee and specifies alternate DSH program payments for the term of the fee. The fee would be set at the level necessary: (1) to reimburse Medicaid services on parity with Medicare to the extent possible; (2) to replace private psychiatric facilities' DSH distributions and the state-operated facility DSH distributions currently available to be made to the state (approximately $70 M); and (3) to provide approximately $112 M in additional funding to the state for Medicaid expenditures. The current level of the assessment is approximately $646 M. The Auditors data base shows that $554 M was collected in FY 2012.

HAF Fee: The assessment is estimated to raise $646 M annually, which would leverage total state and federal expenditures of $1.958 B. The federal share of funds amounting to $1.312 B would be available for hospital reimbursement and other Medicaid-related expenditures. If the fee raises $646 M in funds, the state would be allocated 28.5% to use for other Medicaid purposes; the other 71.5% would be required to be used for hospital purposes. The state share would be expected to result in about $184 M. Of this amount, $70 M would be necessary to replace the state DSH funding for state-operated facilities. The balance of about $114 M would be used to provide the state share for Medicaid services - potentially replacing state general funds.

The bill establishes the Hospital Assessment Fee Committee (HAF Committee) to review and approve certain actions of OMPP. It also specifies that if the fee is not approved by the Centers for Medicare and Medicaid Services (CMS), if the HAF Committee does not approve certain actions of OMPP, or because of an appellate court order, the fee would cease to be collected. The bill does not address what would happen should the allowable maximum level of the fee be reduced by the federal government.

DSH Distributions: The federal Patient Protection and Affordable Care Act (ACA) contains provisions that require aggregate reductions in the amount of federal DSH distributions - $500 M in FFY 2014, and $600 M in FFY 2015. The Secretary of the federal Department of Health and Human Services (DHHS) is required to determine the distribution of the reduced DSH funding within certain parameters. No rules have been published on how the DSH distributions will be distributed among the states at this time. Actions to be taken by the Secretary of DHHS and the General Assembly will ultimately determine the impact on the level of DSH distributions to be made under the provisions of this bill.

Hospital Supplemental Payment Programs: The bill suspends certain hospital supplemental distribution programs during the term of the assessment fee, leaving in place the authority of the OMPP to make supplemental payments to hospitals that are eligible as DSH providers.

Background Information: HAF Fee: The amount of the inpatient HAF is based on total inpatient days attributable to Indiana residents as reported on the hospital's most recent fiscal year Medicare cost report. The outpatient HAF is based on equivalent outpatient days, derived by dividing each hospital's outpatient revenue per day by the hospital's inpatient revenue per day adjusted to preclude services provided to nonstate residents. The fee rate of $187.09 per inpatient day and $26.87 per equivalent outpatient day, is reduced by specific percentages for certain hospitals meeting defined Low-Income Utilization Rates (LIURs), or that provide more than 25% of Medicaid days to nonstate residents. Long-term care hospitals, state-owned hospitals, federally operated hospitals, freestanding rehabilitation hospitals, and freestanding psychiatric hospitals with more than 50% of admissions with a diagnosis of chemical dependency are excluded from the fee. The total amount of the fee paid by each hospital is limited to certain federally defined maximums and is subject to audit and adjustment each year the fee is collected.

Extension of the QAF: Extending the authorization for the collection of the QAF from July 31, 2014, would authorize an estimated annual collection of about $166.3 M for FY 2015, FY 2016, and FY 2017, if nursing facility days remain constant. The ultimate QAF collections will depend on federal actions. Extension of the QAF would allow the state to continue receiving $48.9 M in funding to be used for the Medicaid Program. The total annual collections and the state share of the collections from the extension, actual and estimated, are as follows.

Fiscal Year	Total QAF Collections	State Benefit From Extension of QAF
2006	$ 327.4 M	$ 62.7 M
2007	$ 108.4 M	$ 21.7 M
2008	$ 103.4 M	$ 20.7 M
2009	$ 96.5 M	$ 19.3 M
2010	$ 98.8 M	$ 19.8 M
2011	$ 98.8 M	$ 19.6 M
2012 @	$ 99.9 M	$ 23.6 M
2013*	$ 156.2 M	$ 45.9 M
2014*	$166.3 M	$ 48.9 M
2015*	$166.3 M	$ 48.9 M
2016*	$166.3 M	$ 48.9 M
2017*	$166.3 M	$ 48.9 M
* Estimated; assumes nursing facility days remain constant.		
@ FY 2012 assessment was for $153.9 M. Actual QAF collection is reflected due to timing of CMS approval. State share would be $36.6 M. The retroactive increase in revenue would carry over to FY 2013 actual collections.		

Background Information: QAF Fee: In the current model approved by CMS, the amount of the QAF is based on a nursing facility's total annual patient days. Beginning October 1, 2012, quality assessments of $16 per non-Medicare patient day are to be collected from nursing facilities with total annual patient days of less than 70,000 days. Facilities with annual patient days equal to or greater than 70,000 days will be assessed $4.00 per non-Medicare day. Local government-owned nursing facilities will be assessed $4.00 per non-Medicare patient day. Local government-owned nursing facilities acquired after July 1, 2003, will be assessed $16.00 per non-Medicare patient day. Nursing facilities that are continuing care retirement communities, hospital-based, or owned by the state are exempt from the QAF.

Medicaid is jointly funded by the state and federal governments. The effective state share of program expenditures is approximately 33% for most services. Medicaid medical services are matched by the effective federal match rate (FMAP) in Indiana at approximately 67%. Administrative expenditures with certain exceptions are matched at the federal rate of 50%.

Explanation of Local Expenditures: See *Explanation of State Revenues*, above, as it relates to municipally owned or county-owned nursing facilities or health facilities.

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State Agencies Affected: FSSA, OMPP; State Department of Health.

Local Agencies Affected: Local government-owned hospitals; Health and Hospital Corporation of Marion

County-owned, Municipally owned, or county-owned nursing facilities or health facilities.

Information Sources: Auditor's Data base; and "Medicaid Disproportionate Share Hospital Payments," Congressional Research Service, Alison Mitchell, December 18, 2012, at www.fas.org/sgp/crs/misc/R42865.pdf ; Family and Social Services Administration; "Quarterly Financial Review (June 2012)", Office of Medicaid Policy and Planning; *Indiana Handbook of Taxes, Revenues, and Appropriations*, Fiscal Year 2012", Office of Fiscal and Management Analysis, Indiana Legislative Services Agency; Medicaid Forecast, FSSA, December 17, 2012.

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